



Oral Testimony
Division of Health Care Finance and Policy Cost Trend Hearings
Patrick Gilligan, Senior Vice President
Blue Cross Blue Shield of Massachusetts
June 29, 2011

Good morning Acting Commissioner Carrington, Commissioner Murphy, Assistant Attorney General O'Brien, our distinguished moderator, fellow panelists, and guests.

My name is Patrick Gilligan, Senior Vice President for Health Care Services at Blue Cross Blue Shield of Massachusetts. Thank you for the opportunity to participate in these hearings.

I want to start by commending the Governor, the Attorney General, and each of you for your sustained attention to the issue of rising health care costs, which we all agree is now one of the most pressing issues facing families, businesses, and state and local government here in Massachusetts.

As you know, BCBSMA, like other local health plans, spends about 90 percent of each premium dollar we collect on medical care for our members, with the remaining ten percent going toward the cost of running our business. We pay careful attention to our administrative costs, and anticipate that our 2011 spending will be at or below 2008 levels. That said, the majority of our effort is necessarily focused on medical spending.

We agree with the Attorney General's finding that there are many strategies to reduce medical expense, and any successful attempt to control cost will need to include a combination of approaches involving all stakeholders.

One such approach is using product design to engage members and employers in managing the cost of care. BCBSMA has a new suite of products which allow members to choose any provider in our network, and pay a low co-pay for most care in most settings, or higher co-pays for care in higher-cost and/or lower quality settings. These products have been very well received by our customers. In fact, one product, which we call Hospital Choice Cost Share, is the fastest-growing product in our company's history.

Another strategy is to help members better manage their health or chronic conditions, leading to healthier lifestyles and reduced need for costly medical care.

A third strategy is to develop new payment models which reward the value, rather than the volume, of care. We believe that this will emerge as an important, sustainable route to improve health care quality and control cost.

There are many different ways to design an alternate payment model. BCBSMA has been a market leader in developing, implementing, and supporting one such model, which we call the Alternative Quality Contract, or AQC. The AQC is a five-year agreement that combines a per-patient global budget with significant performance incentives based on nationally endorsed quality measures.

We developed the AQC on our own initiative, at a time when it was clear that the status quo was unacceptable, but also that overcoming the barriers to change would be very challenging. We were asking providers to do something totally new – to be responsible for the total cost of their patients' care. We also had to overcome concerns about prior global budget models, such as capitation, that set provider budgets too low and ultimately failed.

Given this history, we are very encouraged by the AQC's progress so far. Currently, the AQC includes 12 provider groups across the Commonwealth who care for approximately 45% of our HMO members. Data from the first year of the AQC shows that groups are changing the way they deliver care, and that these changes are improving both the quality and efficiency of care. In terms of cost, AQC groups are on track to reduce annual health care cost trends by one-half over five years. In terms of quality, the AQC groups produced the greatest one-year improvement ever seen in our provider network. Because the AQC is structured to encourage investment and long-term planning, we expect to see even stronger results in the later years of these five year contracts.

We believe that the combination of these approaches, including the AQC, tiered networks, and sustained attention from employers and so many state agencies, is beginning to change the Massachusetts health care market. Taken together, they have created pressure on all providers, including the most highly paid. Our ongoing negotiations with providers across the state are showing positive signs of further progress towards improved affordability.

This is a positive sign, but I want to emphasize again that we must continue to pursue multiple approaches, and to engage all stakeholders, if we are to create sustained relief from rising health care costs. Blue Cross is ready to work with all of you as you continue to develop and implement ways to achieve this critical goal.

Thank you for your consideration of these important issues. I look forward to an engaged and productive panel discussion.